



NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

**Business Organizational Systems Framework
Model Application and Analysis**

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December 2005**

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**BUSINESS ORGANIZATIONAL SYSTEMS FRAMEWORK MODEL
APPLICABILITY AND ANALYSIS**

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Submitted in partial fulfillment of the requirements for the degree of

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from the

**NAVAL POSTGRADUATE SCHOOL
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BUSINESS ORGANIZATIONAL SYSTEMS FRAMEWORK MODEL APPLICATION AND ANALYSIS

ABSTRACT

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I. MODEL SELECTION AND APPLICATION

A. INTRODUCTION

Organizational structure and design may vary significantly between entities. One common element amongst them is that each organization's different functions aggregate to respond to its internal and external environments. Therein exists opportunities for each organization to benefit from increased efficiency and effectiveness. In order to accomplish these goals from the onset, the following question must be asked and answered on a case by case basis: How does one analyze an organization systematically to diagnose efficiency and effectiveness?

The answer to that question is the adoption of an appropriate diagnostic model. Diagnostic models provide a way of describing a business and its tasks of creating economic value. If applied correctly, the proper model provides valuable insight into the most intimate details of the business which translates how the inputs generate economic outputs and everything in between.

Model application is essential to identifying the strengths and weaknesses of an organization; it is an internal audit that gives a realistic view of how the organization is compared to and/or viewed by those inside and outside of the organization. The strengths of an organization are identified by highlighting the things that are done well and the resources available to maintain those activities. The weaknesses are identified as areas for improvement, addressing the functions that are done poorly and ones that should be done better or in a different way. Organizational objectives are achieved by maximizing the strengths while minimizing the weaknesses. Further, the organization must properly align both of the aforementioned areas to their external environment in a way which exploits opportunities and avoids or mitigates any potential threats.

After a model is applied to the various aspects of the organization's internal and external environments, the resulting information is used to make recommendations based on change. The recommendations are intended to be suggestions for improvement, with

the understanding that the owners will review and accept the results and make the final determination on this implementation.

This project will take a look at one business in particular and closely examine their different processes, procedures, and plans for the future. After this intense examination through continual communication with the owners and employees, the strengths and weaknesses of their particular way of doing business as well as suggestions for improvement will be offered. The intent is for the owners to take these ideas and tailor them to suit their purposes. While we make no claims about being able to offer suggestions that will achieve actual improvement, we hope our examination process will at least give the small business owners insight into their own practices and highlight their options for the future.

B. METHODOLOGY

1. Model

The model used for this business study is the Organizational Systems Framework (OSF). This model provides a description of the organization as a system. Furthermore, it gives a comprehensive analysis of all of the factors of inputs, throughput, results and how they all relate to each other. In order for the OSF model to work, the model operates on some of the following assumptions:

1) The organization is subject to the dynamics of its environment. As the environment changes, the organization must do the same. If the organization changes, there is likely to be an impact on its environment.

2) Inputs are changed into outputs. This is facilitated by a conversion process known as throughput.

3) At the tail end of the process, outputs are used as constructive feedback which helps the organization judge its performance.

4) Organizational change occurs through corrective interventions. Transformational change occurs when the organization's entire system is changed. Change can also happen at the lower levels or subsystems in an organization. This is called incremental change.

5) There is a ripple effect when change occurs throughout an organization because it is built of inter-reliant functions

6) The parts of the organization should fit together. If they are misaligned, that will lead to inefficiency and ineffectiveness.

The OSF model facilitates the delineation of the following areas in great detail: organizational direction, design factors, culture, and results (outputs and outcomes); see Appendix A. The organizational direction vectors the organization and gives it a plan for the future. Within this direction, there are implicit and explicit guidance that defines the mandate, mission, values, beliefs, vision, goals, strategic issues (questions facing the organization), and strategy. The design factors of the OSF state how the work is executed. Various elements that factor into the operation's execution are people, the tasks that they accomplish, the organization's structure, the flow or "technology" of the tasks, and the subsystems (i.e. budgeting, planning, decision making, etc.). The next element of this model is the culture. Culture is a function of the organization's direction and other design elements and is the culmination of values and beliefs within an organization, defining how it interacts with its environment. The final element is the results. Results are comprised of the organization's outputs and outcomes. The outputs pertain more to the physical production of goods and services whereas outcomes correspond with how well the outputs meet the expectations of stakeholders. More specifically, the outcomes describe any consequences of the goods and services based on performance measurement tools.

The OSF model can be used for more than just diagnosing private organizations. The principals reach much broader and address elements that are critical to any organization. The systemic tools, processes and skills learned can be applied as a diagnostic tool for Department of Defense organizations to identify areas of organizational effectiveness and efficiency.

2. Business Selection

In the search of possible MBA project ideas, we considered a couple of options and tried to decide what would best suit the education we were receiving at the Naval Postgraduate School. One of the ideas to surface dealt with finding a local area business

(private, public or non-profit) and offering a type of “business consulting” within the limits of our education and the guidance of a professor. This exercise in analysis of business practices could then be used as a tool for practicing organizational diagnosis in Department of Defense organizations. While considering the consulting idea among others, an opportunity fell into our laps that matched up nicely with the business consulting idea.

One of our biggest considerations that helped narrow the final decision of a business to select was convenience: convenience of information access, convenience of organizational size, and convenience of location. Combining these three areas of convenience would enable us to provide the most thorough analysis possible for the chosen organization. The local business had to be willing to grant us access to their records, employees and processes within reason. Also, we preferred the organization to be a reasonable size, allowing us to accomplish our objectives within the limitations of time given for this project.

We heard of a store from a former employee that would possibly be open to working with NPS students and decided to use this contact to establish a relationship. The store turned out to be a candy shop that specialized in handmade truffles and novelty chocolate, such as designing pieces in the shape of company logos or objects, very similar to specialty cakes for birthdays or other celebrations. For example, if a customer wanted a piece of chocolate in the shape of a guitar in a certain dimension, the store would be able to produce the desired design. Taking this opportunity in hand, we contacted the owners of the chocolate shop and explained our desire to analyze their business practices and present a report along with suggestions to them in completion of our MBA Project requirements. They seemed open to the idea and our project was born.

3. Methods

In order to effectively assess an organization, a thorough analysis of the input, throughput and results must be accomplished. There are many ways to gather organizational data. The chosen methods must be achieved in a way that the data can be processed into practical information and used to give the organization a realistic analysis of its operations. The methods chosen for this project were the collection of archival

research, interviews, and observations. The archival research was based on limited information drawn from the owner's documented financial records. The owners, in good faith, submitted their statement of income for the past two years. They also provided the values for their total sales revenue for the last four years and the net income values for the last two years.

We interviewed the two owners and three of the four employees. The fourth employee was not interviewed due to the fact that she was new to the store, and therefore lacked applicable experience. During the first meeting, the owners were given a detailed snapshot of our expectations of the project. The owners also gave us their expectations and limitations that we would face, i.e. scheduling. On that day and on at least three other occasions, we formally interviewed the owners about all of the elements contained within the OSF model. The initial interview is documented in Appendix B. We also interviewed the owners informally on many occasions via brief telephone and face-to-face conversations. Many of those discussions were used to get clarifications on information that was collected earlier. There were also formal, sit-down interviews with three of the four employees. We asked questions that assessed the knowledge, skill levels, perception, and roles of each employee. These questions are documented in Appendix C. Their responses and comments are incorporated throughout the consulting report as illustrations of the elements and sub-elements of the OSF model. There were also informal conversations held with the employees in order to better understand their roles in the store.

Along with the interviews, we observed normal business functions on five different occasions between three to five hours each thereby learning about their daily operations. During these observations, the owners also instructed us on how to carry out tasks and allowed us to participate in the production of various end items. Through the observation and interaction process, we were able to document valuable information about the elements as stated in the OSF model.

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II. ORGANIZATIONAL DESCRIPTION THROUGH OSF

The purpose of this section is to fully describe how the organization appears to be structured and run from an outsider's point of view. This section examines the different inputs and outputs of the business and the design factors that influence those inputs and outputs as well as organizational culture according to the OSF model. It will also look at the stated organizational direction of the business as well as the perceived one. Finally, this section analyzes the different outcomes and how they are measured, or not measured, to see if they meet organizational goals.

In an effort to understand the company, interviews were conducted to get the owners' perspectives on their daily business, inputs, outputs, outcomes, directions and other related areas. The results of the interview are in Appendix B. Additionally, many days were spent observing their daily operations, as well as participating in those operations, and interviewing employees. During these times, impromptu conversations highlighted many views of the owners held of their business and where they wanted to be in the next few years, as well as problems they had come across in the past and their solutions to those problems. Hopefully, through the different observances, interviews, and contacts, this report can allow the owners greater insight into their organizational setup.

A. ORGANIZATIONAL DIRECTION

In order to successfully interact with the surrounding environment, an organization needs to have a direction or vision, whether it is formally stated or informally understood. Direction allows an organization to successfully adapt to changes outside its walls and scope of influence. After many discussions with the owners of this establishment, it is evident that there is not an established, formalized or traditional mission statement per se. There appears to be a lack of concrete mission direction; instead, the owners are faced with multiple choices on where to go for future operations. Some of these strategic options include a desire to keep their business status quo, expand their operations by buying another larger facility to house their current business, expand

the number of store units through the purchase of other struggling, established candy businesses in different areas, hire an individual and give them full autonomy of store operations and then go into semi-retirement, or sell off the business altogether and move on with their lives.

Another challenge the owners face is a desire to keep a stable work force. The owners' vision is to have their store operate independent of their presence. In other words, their ultimate goal is to grant full autonomy to their employees so they will be able to run the store full time with minimal interaction. Previously they had employed teenagers as part-time workers. Unfortunately, there were problems with stealing, mainly from the cash register, and they had to fire all their teenaged employees. Currently they have one full-time, mature individual who lives in the local area. She is currently negotiating to work less hours, so the owners desire to have another person in the local area that would give them more coverage of the store with less in-store interaction for themselves.

The future for this business is uncertain. With many strategic options, and no resolution among them, there is no strategy to take this business to the next level. Again, the owners know they want to keep operating this business and sustain enough profit to live comfortably. The bottom-line issues that they are faced with are not only choosing a path for the future, but also implementing it in a way that can be sustained over time. In order to reach their vision of full employee autonomy, while running efficient and effective operations, they believe they must get help to improve the business and enhance the value-added aspects of their operations.

B. DESIGN FACTORS

This section analyzes the basic components, or design factors within the organization. Design factors describe the work that is done by people, the tasks they accomplish, how those tasks flow and the organization's structure, and subsystems that support operations.

1. People

Aside from the owners, there are four steady workers, each with their own experience and knowledge and level of training. The owners have been at their current location for 15 years. They have been in the candy business for longer, though this is the first time that they own all aspects of the business instead of being franchise managers. They are very good at producing the variety of specialized products to run such an operation and have carefully gleaned the skills needed throughout the years. Much of their knowledge comes from first-hand trial and error as well as through attending candy shows, conventions, and workshops. As mentioned earlier, the owners feel constantly challenged as to the direction their business will take in the future.

Within the store, four workers work different amounts of total time. Three of the workers are military wives while the fourth worker is a resident of the local area. The military wives have to rotate out every year or so as their spouses complete their education at either the Naval Postgraduate School or the Defense Language Institute and are stationed elsewhere. The owners are flexible with the hours the different employees want to work and are willing to make compromises for unexpected events or family issues. However, they do expect their employees to work hard and diligently when they are present as well as show integrity and honesty when dealing with the business operations.

In interviewing the different employees, we discovered very different levels of skills, knowledge, and abilities. One employee had actually worked in a candy store before. Other employees had worked in retail prior to this, some earlier in their lives than others. Whatever their backgrounds, all employees began work at the store needing some level of training in the production, maintaining, and selling of chocolate. A couple of the workers needed training on the customer service aspect of the business, such as running the cash register or keeping the displays stocked and clean. New and old workers alike usually get training whenever the owners or more experienced workers are present and need to refill a particular candy type. All workers profess to be satisfied and happy with their jobs; they enjoy working together and working with chocolate. Additionally, they stated they all work well together in filling shortfalls in scheduling. One common theme

of all the interviews was the employees' appreciation for the owners' understanding of the importance of family life and flexibility in scheduling times for each week.

2. Tasks

In addition to interviewing the employees and owners, some time was spent working on different jobs within the candy store and observing the different tasks the owners and workers do. The main portion of the business operations revolve around making candy, a task that is normally performed by one of the owners, especially the more complex processes. The owners make everything from truffles, to caramel, to peanut brittle and just about every other kind of candy imaginable along those lines. Though the owners make the majority of the candy batches for the store, they are willing to train any interested employee when they start. Some of the more experienced employees are also capable of making certain candy batches if the owners are not around or are busy. However, the owners do take care of all specialty orders themselves.

Another task that is similar to making the different kinds of chocolate, but less challenging, is a process called "dipping." This is where the inside of a truffle or nut cluster is dipped in milk chocolate, dark chocolate, or white chocolate, coating the entire piece. This process is much simpler than making the actual truffle insides or other candy; it is easy to learn, but takes longer to completely master. Dipping can be performed by many of the employees once they are given initial training in the process.

Before a candy batch is made, all the ingredients have to be gathered together, or at least within reaching distance. Once the batch is completed, those same ingredients have to be put away and the different tools used in the process have to be cleaned. Gathering the ingredients can be done by any of the employees, but they are usually under the watchful eye of one of the owners. Cleaning up once a candy batch is completed can also be done by any of the employees. In fact, many of the items used in making a candy batch, or that become dirty from general use, are left waiting in the back in a stainless steel kitchen sink to be cleaned by the first available person. Often, the person making the candy batch has moved on to the next batch before cleaning all the tools used in the last batch. This is done to have an ongoing flow of candy production.

One of the other tasks required to run the store is general customer service, such as taking and filling orders, wrapping candy boxes, and receiving payment. Additionally, employees learn how to display the candy and are responsible to keep the display cases full and neat. All of these tasks are taught to the newer employees and all employees are expected to know how to run the cash register and help customers soon after they start work.

Overall, the tasks are not highly formalized. Sometimes, the owner or the employee making the candy batch will take care of all aspects of the process, from gathering ingredients to cleaning up afterwards. No one is specifically assigned a job, but they are expected to work on tasks they have been trained for. As stated earlier, all are expected to complete many of the basic tasks, such as cleaning tools and work area or running the cash register. However, some of the more complex processes can only be completed by the owners, like certain types of candy or specialty orders. When making candy batches, many of the elements of the process have to be exactly correct, such as temperature, or a candy batch will not turn out right. Despite this, the majority of the tasks are completed on an as-need basis with no formalized lists of tasks for the day, except perhaps the different types of candy that need to be made for the day or week.

3. Technology of Work

The technology of works analyzes the work flow and how work is completed within an organization. It essentially helps determine how an organization produces outputs through the different tasks completed. One of the tools to determine this is called Perrow's Model and examines the typology of the work:

		Uniformity of Cases and Situations	
		Uniform	Non-uniform
Analyzability of cases within existing procedures and knowledge	Must search for new procedures; Process not codified	Treatment based on Professional Judgment	Non Routine work
	Standardized procedures exist; Technology is codified	Routine Work	Combine Programs to Fit Cases

For this organization, the analyzability of cases within existing procedures and knowledge appear to be standardized. The store mainly deals with selling candy to customers, candy that is usually already within the display case. Also, whenever a new batch of candy needs to be made, a recipe already exists for that candy with the appropriate quantities to reach the desired batch size (depending on which candy is being made). In either case, standardized procedures exist; the technology is codified. However, as different cases and situations appear, they are non-uniform in nature. Customers can order anything they want and there is no concrete way to predict what will sell on a particular day as opposed to another day. While the store may be able to make long-term decisions regarding candy types, such as approximately how much fudge they may sell in a three month period, shorter-term decisions of what particular candy to stock is at the whim of the customer. This case shows the non-uniformity of cases and situations. Using the fact that there are standardized procedures, but the different cases are non-uniform in nature, Perrow would label the technology of work as having to combine programs to fit cases. In this case, the procedures exist for almost any type of

candy desired, but there is no telling exactly what candy will be required until a customer requests it.

Another way to examine the technology of work is to analyze the task interdependencies: How linked are the tasks? How much communication and coordination is needed to complete tasks? After observing the daily work performed and talking with both the owners and the employees, it appears that the work flow can be considered as using sequential interdependence, with a small amount of pooled interdependencies. Sequential interdependence is required when the majority of work is done in sequence; you have to complete one task before the next can be done. Coordination and communication are necessary to complete the tasks and ensure proper timing. In the case of this store, many of the tasks cannot be completed until some prior task is done. For example, candy cannot be stored or placed in the display case until it is made. The candy cannot be made until the ingredients are gathered together. The different tools used cannot be washed until after the candy is made.

However, there are some pooled interdependencies present also, when units are designed to operate independently but are part of the same organization. It requires a minimal amount of communication and coordination to complete a particular task. In this organization, not all tasks have to be completed sequentially. The tools used to make candy can be washed at any time, either before or after candy is packaged, provided they are washed before they are needed again. Additionally, candy does not have to be stored or displayed before it is bought, especially if a customer wishes to purchase it before right after it is made.

Machinery is another aspect of the technology of work. It is used to convert the raw materials into edible products for sale. The owners use three dipping machines to create the delectable treats which go on to fill the limited area within the display cases. Most of the business' specialty product lines come in contact with these machines at least once during the process. The machines are relatively small in size, but are appropriately suited for this scale of operation. The surrounding area where the machines are located is large enough for approximately two people to work comfortably. There is also a big

cooper cooking pot where huge batches of toffee, fudge, peanut brittle and caramel can be made.

In conjunction with the dipping machines and the melting pot, the owners use a pump primarily for the larger orders. When processing small specialty orders that use the various molds, the owners create the candy by hand, a process that is faster and more efficient for smaller quantities. The larger orders take more time to complete by hand and take their toll on the person running the operation. To offset this, the pump is used to measure consistent and uniformed dollops, decreasing wasted resources.

The owners also use two refrigeration units. One unit is used for normal day-to-day items that can be chilled at normal refrigeration temperatures. The other unit is a staging area for cooling the candy when it comes out of one of dipping processes. If nothing else is required at this point, the product is usually prepared for final display and/or sale straight from the refrigeration unit. However, if there is enough candy on display at the moment, the completed candies are boxed and stored in the back room. Some of the other peripheral materials used in production and final preparation include trays, molds, boxes, and other accessories.

Finally, individual labor goes into the process and transforms the other inputs into outputs. Without the people, none of the above would take place. As stated earlier in the report, the two owners work at the store on a part time basis as well as four employees. The owners have been in the business of confectionary creations for almost two decades and they have an extensive knowledge base. The four other employees started working for this business within the last year and have learned their candy making skills at this store. They all worked at some point in time for other retail institutions and have already learned customer service and general retail skills.

4. Structure

The overall structure of an organization can be broken down into three different aspects, the overall amount of autonomy or decision-making authority and where it lays, the division of labor, and the overall integration of labor. In one aspect, structure affects the amount of responsibility given to employees as well as conferring or restricting

decision-making authority. In this business, much of the overall decision-making authority is held by the owners in a high degree of centralization. The owners of the candy store decide what and how much candy they want to make (though much of this is dictated by customer demand). If they wish to add a new candy or discontinue a previously made line of chocolates, they are the sole authority on that decision. However, the owners cannot be at the store all the time, they actually live about four hours away. During these times, whoever is running the store in their absence is given a great deal of leeway in deciding what needs to be made and in what order.

Another aspect of the structure of an organization that can be examined is the way the tasks are structured among different groups or employees. The majority of the work at this business appears to be grouped by output based on experience level. Though everyone is trained to do many of the daily operations, such as customer service and manning the cash register, these tasks fall mainly to the newer employees. There are certain tasks, such as making candy, that require a high degree of experience and knowledge. Newer employees take many of the generic tasks, such as cleaning or serving customers, while more experienced employees and the owners work on producing the different candy. However, these lines are very fluid as the owners and experienced employees will serve customers and clean up the store when needed. Also, newer employees can learn to make some of the different kinds of candy and can also help out during the process when they wish to learn.

The final aspect of structure discussed is how the employees are coordinated to complete different tasks, or the *structural integration*. The owners of the store hold the formal power and authority. They are the ultimate decision-makers in the organization and they delegate their authority by teaching some of the more complex candy-making procedures to the employees that have the ability and experience to learn. It is these employees who are usually left in charge when the owners are absent for long periods of time. Even though any employee can be left in charge of the store, only the more experienced ones can do so for long periods of time and ensure that certain product lines do not run out in the owners' absence.

5. Subsystems

Subsystems are designed to help an organization manage, control, and smoothly run daily and long term operations. They include areas such as inventory, employee performance incentives, and communication systems. Successfully implemented subsystems are the key to well-run operation.

a. Financial Management, Measurement, and Inventory Controls

Regarding inventory, a small section of store behind the main work area is used mainly for storage. It includes items such as plastic molds for different chocolates, ready-made boxes for wrapping candy, seasonal decorations and boxes, as well as some other candy making tools. In addition to this, the owners also transport inventory overflow to their home up north. Due to the lack of space in the store, they have approximately a “garage-full” of items that they were unable to keep at the store. Much of their inventory consists of non-perishable items such as wrapping and molds. They have no inventory guide or way to keep track of items except through memory. It is difficult to remember exactly where they keep everything, and sometimes items get reordered by accident.

Perishable items are another matter. While the shelf-life of some perishable items may be longer than others, such as canned-condensed milk verses strawberries, most items are used quickly as they are purchased. In fact, many items are purchased at the time they are needed or when it is obvious that supplies are running low. For example, when making caramel one day, the owners noticed they were running low on canned milk. One owner ran to the market to pick up canned-milk and some other items they knew they needed while the other one continued to work on the caramel.

For this organization, minimal financial data was available to review. The owners relinquished four years of total sales but were only able to include the last two years of net income. Unfortunately, this meant that return on assets could not be calculated for the last two years. It is important to note that based on the financial information received, the following information could be used for results and possible descriptions of outcomes. There was an 11% decrease in return on assets from 2003 to

2004. There was a steady increase in total sales from 2001 to 2002 and 2002 to 2003; respectively 2.2% and 0.3%. Also there was a total sales decrease from 2003 to 2004 by approximately 4%. Finally, net income prior to excluding taxes and interest increased almost 8% from 2003 to 2004.

b. Human Resource Management and Rewards

The owners have taken to tapping into the informal military spouse networks at the Naval Postgraduate School and the Defense Language Institute. They mainly find new employees through word of mouth, using former or current employees, or through candy donations they offer to military functions. In fact, two of the three employees interviewed were recruited when they heard about the business from other workers or friends of other workers.

After being recruited, the new employees are trained almost immediately on the basics of running the operation: dealing with customers, taking orders, and keeping the store neat. Other training is done on a purely ad hoc basis. If one of the owners or more experienced employees happens to be making a batch of candy when that new employee is present, then they receive on the job training on making that particular candy. There is no set training schedule on how to make certain candy-types though; it appears to be merely luck of the draw depending on who is at the store that day.

There is also no formalized reward or consequence plan for high or low-performing employees. The owners state that most low-performing employees either leave on their own or are fired. Additionally, they hold no exit interviews with employees who quit in order to find out the exact reason for their departure. There does appear to be a number of informal rewards for the employees that work at the store though. As stated before, many enjoy working with chocolate and learning different candy making processes. Employees are also given an employee discount when they wish to purchase candy for either themselves or as gifts to family and friends. Finally, it appears that the flexibility in scheduling the owners give their employees can be counted as an intangible reward for performance since many of the employees profess to be happy with the scheduling flexibility.

c. Planning and Decision Making

Within the candy store, the owners are the ultimate decision-making authority. They decided what product paths to pursue and how much of a particular candy to make, though customer demand greatly influences those decisions. The owners have no set decision making system or way to highlight when critical decisions need to be made. For example, the Christmas season is a big time for candy stores and usually signals an increase in customer orders, especially for seasonal candy such as peanut brittle and chocolate Santa figures. The owners realize that the demand for such items increases greatly during this time, but they have no means to predict sales and usually have to run certain candy making processes full time to meet demand. Additionally, there is no method to predict sales on their main candy types from month to month. When a particular candy gets low or runs out, like peanut caramel turtles, then they make more rather than trying to anticipate demand. If candy does not sell as well as expected or sell before its shelf-life expires, then it goes to waste.

C. ORGANIZATIONAL CULTURE

A formal definition of culture explains that culture is “a pattern of shared basic assumptions that the group [has] learned as it solve[s] its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems.”¹ The culture of any organization is established by the founders and/or owners. However, it is cultivated by the individuals that operate and manage the business on a day to day basis over a long period of time. The norms and values that a company embodies will therefore have an immeasurable impact as to the level of success experienced by that organization.

The owners of this store have been in this particular market for approximately 22 years and have been owners of their own establishment for about 15 years. They believe

¹ Edward J. Schein. *Organizational Culture & Leadership*. www.tnellen.com/ted/tc/schein.html
(24 August 2005)

they have been successful in adapting the culture of their organization to the changing times. For example, as stated earlier in this report, their employee work cycles mimic a revolving door. Many employees leave due to mandatory moves or because they do not fit into this store's overall scheme. Therefore, the owners have found themselves as the only continuity over the life span of the organization.

A couple of underlying facets of this store's culture and the owners' management approach has been flexibility and fairness. The owners hired a variety of individuals who all showed up to work with different backgrounds, circumstances and attitudes. The owners treat them all as adults who are capable of running their store. Scheduling is flexible provided the store is always manned. On the other side, the employees are expected to be flexible also. The store needs to be open approximately eight hours a day, seven days a week and also needs coverage at all times in order to maintain a desired level of productivity and performance. The owners cannot be collocated or in the nearby vicinity to respond to the store at all times during the week. Instead, they have come to rely on their employees to embrace the reins of responsibility and cover the store within reason.

The owners state that finding employees to work for their business in the local area is extremely tough, so they try to treat their employees with consistency and fairness. There have been circumstances though in which they've had to alter their management style. They found that they needed to provide a lot more supervision for teenage employees as mentioned earlier. Unfortunately, many times teenagers decided to use the store's cash register as their personal withdrawal account. Those people were dealt with swiftly and weeded out of the store's roster. However, these instances appear to be stand alone cases and do not represent the majority of the workforce of the company.

Along with being flexible and fair, the owners communicate openly with their employees. They want employees to tactfully challenge some of the established practices and norms. For instance, the owners had a certain way of keeping track of daily priorities. Unfortunately the system was not very clear to the new employees. Subsequently, one of the employees drafted a simple way of organizing the priority list.

The new system was modified so that if she or the other workers were by themselves in the store, they would be able to better understand the system of priorities for that day.

D. INPUTS, OUTPUTS, AND OUTCOMES

Inputs can range anywhere from the resources used in producing outputs to the information and people used to manipulate the inputs into desired outputs and outcomes. The inputs of this store are the raw materials, machinery, and individual labor that convert ingredients into the final products eventually sold to customers. Most of the perishable ingredients are purchased on an as needed basis. These ingredients are based on various recipes that the owners have gathered through the years. Over time the owners have mixed and changed the ingredients to adapt them to personal preferences as well as to make changes based on feedback from their customers. However, the owners are highly critical about the aesthetic design and flavors of their final products so their individual tastes often rank higher than customer responses.

When the schedule permits, the owners attend various trade shows where they gather information about ways to improve their current product offerings. They also learn about different trends and techniques they have yet to try or experience. The owners have tracked certain professionals for a long time and tend to use their ideas more than others. They also gather information from various professional publications and magazines in the candy industry.

The raw materials they use range anywhere from sugar, fruit, and nuts, to very large chocolate bars that are subsequently melted down into a creamy state. Once the chocolate is melted down, it is used for both the outside shells and the inside fillings of different candies. These different candies are shaped and molded into a variety of unique forms, ranging from very simple to extremely elaborate.

The outputs are the goods and services that are produced. At a bird's eye view, the owners produce high quality products that serve a customer base that values certain confectionary desires and habits. They also create an intangible service that is hard to measure. In other words, there are customers that come back specifically because they crave the store's products or they would like to purchase the products for someone else.

Those transactions can be quantified. Coupled with their products is the good customer service that can not be measured but creates goodwill.

Outcomes are the results that are achieved from the outputs. More specifically, outcomes explain the consequences of the outputs for the stakeholders. As gathered from the discussions with the owners, the measurements used for store performance are not defined or tracked to the point where they can put a finger on their level or know how well they are doing at any given snapshot in time. Their lack of a financial system was discussed earlier. Employee and customer satisfaction should also be considered. According to the different interviews, it appears that the employees enjoy their jobs immensely and are eager to work at the store. They all claimed to like working with chocolate and with each other. As for customer satisfaction, that could not be concretely measured. The owners believe they have satisfied customers, mainly due to their repeat customers. They get many compliments on their chocolate and have even sold their candy repeatedly to some celebrity customers.

Essentially, this company is able to take raw materials, machinery, and labor and transform these inputs into a desired customer product that is coupled with impressive customer service. Unfortunately, there seems to be no way to measure whether the store's outputs are creating the correct outcomes. The owners appear to be successful in bringing customers back through a desire for their candy coupled with the excellent service that is given by the store. However, they are not able to measure these outcomes financially, as evidenced by the lack of financial data such as sales, and must instead rely on more on customer comments and qualitative assessments.

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III. ORGANIZATIONAL ANALYSIS

After observing the daily store operations and conducting multiple interviews with the owners and employees, both formally and informally, it became clear that while some of the processes the owners had implemented were working well, others could be modified or new ones developed in their stead. Some of the strengths of the business included employee morale, just-in-time perishable inventory management, the focus on customer service, as well as the enthusiastic and caring attitude of the owners towards their employees, customers, and people in general. However, while these are the strengths of the business, some areas of the store's operations are ready for improvement, whether as a small change or through the creation of a new process. These areas are listed below.

A. ORGANIZATIONAL DIRECTION

One of the organization's weaknesses is lack of a formalized, stated mission. Fortunately through some of the interviews/discussions that were conducted, the mission of the organization can be devised and put into words that should meet the owners' approval. A recommended mission is in the next chapter.

Instilling a mission within an organization is critical to ensure that correct paths or actions are taken, by both employees and owners. It is difficult to determine the future of an organization if the ultimate purpose or goals are unknown. Knowing the values and goals of an organization is important when deciding the future of an organization. It allows stakeholders to evaluate the different options available and select the one most in line with the organization's values and purpose. At this store, the owners are constantly challenged as to the direction that they would like to take this business. Some of the paths they are considering are to keep their business status quo, expand their operations by buying another larger facility to house their current business, expand their number of store units through the purchase of other struggling but established candy businesses in different areas, hire an individual and give them full autonomy of store operations and

then go into semi-retirement, or sell off the business altogether and move on with their lives.

For the record, the owners expressed that the latter seems to be the least desirable option at this time and therefore it will not be addressed in this report. They realize that the other options carry risks and they are not positive about pursuing either option at this juncture. For example, expansion has the ability to bring in more sales and higher profits. However, along with that comes a higher probability their current challenges or areas of improvement might fester, i.e. employee consistency, more machinery, higher costs, etc. Before they can adequately evaluate their alternatives, they need to know what their mission is.

The owners have an undeniable passion for the business that they are in. They are very good at producing a variety of specialized products. They also enjoy and welcome the challenging opportunities of differentiating their products. It is impressive to review their portfolio of unique, made-to-order creations. Every year, they are invited to share their handiwork with exclusive events in the local area, opportunities that expand their market for specialized products. Unfortunately, they find that those differentiated products are usually on an ad hoc basis. This in itself leads to inefficiencies. The owners devote a lot of time and effort into figuring out the design and processes needed to make unique orders. The costs associated with making these one time creations are much higher than other products and the owners are not able to experience the savings that come with making the larger order, even if they charge relatively premium prices. Knowing the direction they want the business to expand it could allow them to more adequately evaluate and accept such offers. For example, if they desire to expand the business, accepting these specialized orders can be good marketing to get their name and product out to more clients. Again, it depends on which direction they wish to pursue.

B. DESIGN FACTORS

1. People

The owners are in business because they love creating fine chocolates, making people happy, and are able to sustain their lifestyle through the profit they make. They are very good at producing the variety of specialized products to run such an operation

and have carefully gleaned the skills needed in order to do so throughout the years. Much of their knowledge comes from first-hand trial and error as well as through attending candy shows, conventions, and workshops. They enjoy and welcome the challenge of differentiating their products, though this is usually done on an ad hoc basis. Such creativity and desire to create quality chocolates is a great motivator for the employees of the store.

Regarding employees, the military wives and the local employee appear to be working very well for the store. The owners feel that overall productivity has increased since firing the teenage workers and hiring more mature workers to replace them; they claim no more cash is leaving the register. The store's owners are more flexible with the hours the different employees want to work. They understand the different family needs, allow the workers to be extremely flexible in scheduling times, and understand when short-notice problems come up that lead to an employee having to leave early or reschedule. However, they do expect their employees to work hard and diligently when they are present as well as show integrity and honesty when dealing with the business operations. In return, the employees appear to be motivated to work hard because of this understanding and have come to expect such flexibility in scheduling. Additionally, they are well-pleased with their jobs, either because of the joy of working with chocolate or as a chance to get out of the house, and enjoy their current level of commitment to the store.

Unfortunately, there are some downfalls to hiring military spouses. The tradeoff for better workers is that their employees now rotate out every two years because of family demands, mainly because their spouses are reassigned somewhere else after completing their time in at either the Naval Postgraduate School or the Defense Language Institute. These rotation cycles can lead to some unforeseen shortfalls in manning later if replacement workers can not be found. Additionally, there is no guarantee that the new workers will be as dedicated and hard-working as the current group of military spouses.

The store also has one individual who lives in the local area. This situation works out well for the store's owners and is a current strength of the business. The local employee brings stability to the process and can be around when the owners are away. Additionally, she has taken over much of the new employee training to make the process

more consistent. So far the situation has worked out well, but she is currently negotiating to work less hours due to family demands. This could lead to some weaknesses in the store's operations. The local employee has the most experience and is a valuable asset to the store. The owners desire to have another person in the local area to spread out the risk of losing such an employee. While that would help give them more coverage of the store with less in-store interaction from themselves, they have stated that it is difficult to find people in the local area willing to work at the store, especially at the level of commitment they want. This situation has the potential to be a weakness unless another source of continuity, aside from the owners, can be found.

2. Tasks

The list in the organizational description of Chapter II varies from simple to complex. Some can only be accomplished after specialized training by the owners. The majority of the complex tasks are completed by the owners because of this reason. The complexity of some of the tasks can be considered a weakness without having proper training measures in place (training will be discussed later). Fortunately, there are some tasks that can be accomplished with no or minimal training. One of these is the task of “dipping”, when a created candy items, such as truffles or nut clusters, are dipped in a bowl of chocolate to cover them completely. This process is much simpler than making the actual insides or other candy. It is easy to learn and can be taught to newer employees. Many items have to be dipped in the bowls of chocolate before they are finished, so this is a good task for newer employees to be put on. However, it does take time to completely master and to reach the speed at which the owners can finish dipping a tray of chocolates.

One area that requires no special skills, just attention to detail is in gathering items for making chocolate. This allows employees to learn the layout of perishable items as well as observe the different candy making processes, so they become familiar with them faster. Additionally, after a batch of candy has been made, any employee can clean the implements used. In fact, many of the items that are used either in making a candy batch or that become dirty from general use are left waiting in the stainless steel kitchen sink to be cleaned by the first available person. Another strength of the

organization is the fact that these tasks are not highly formalized and can easily blend together. Sometimes, the owner or the employee making the candy batch will take care of all aspects, from gathering ingredients to cleaning up afterwards. No one is specifically assigned a job, but they are expected to work on tasks they have been trained for. This allows some fluidity in the process. The more experienced workers can keep creating chocolates and focus their attention on the process, while other employees can gather ingredients and clean tools used.

Though there is no formal process, from candy making to candy selling, there does seem to be an inherent or informal process adopted. While observing the candy store operations, it appeared that most of the candy-making and dipping jobs were performed by the owners. The other employees would mainly keep the display cases filled and fill orders from the customers. If there were candy-making implements waiting to be cleaned, these same employees would also take care of those tasks and keep the counters and floors clean as well. Overall, the majority of the tasks seem to be completed on an as-needed basis with no formalized lists of tasks for the day, except perhaps the different candy that needs to be made for the day or week. Not having a formalized process can be considered another strength of this business since they are small. It allows people to work where they are needed, rather than waiting to perform a certain task in a certain order. Also, being so small forces all the employees to be vigilant in finishing up tasks; it is obvious if one employee is failing to put in their share of work. However, if this organization wishes to grow, it would be harder to monitor employees and ensure all the proper tasks are completed without having a formalized list or process.

3. Technology of Work

As mentioned in the organizational description of Chapter II, Perrow would label the technology of work as having to combine programs to fit cases. In this case, the procedures exist for almost any type of candy desired, but there is no telling exactly what candy will be required until a customer requests it. Also, it appears that the work flow of the store can be considered as using sequential interdependence, with a small amount of pooled interdependencies. Again, although the majority of tasks have to be performed in a sequential order, the order is very flexible and an employee does not have to complete a

particular task before moving on to the next one. They can start to package candy, go help a customer, restock the display case, and then clean up some tools before going back to package candy again. So long as certain tasks are completed first, such as making candy, the other tasks can be performed in varying sequences. This process works out very well for this company; it allows them to flexibly and shift their limited resources to an important or time critical task easily and quickly. However, there can be some ambiguity in this process for newer employees that are not comfortable with this process and do not yet understand their place in the ebb and flow of work. This could create some tension within the work place.

One of the company's most limiting resources is their space. Renting in Carmel is an expensive affair, especially for a business that wants to expand. Unfortunately, it seems as if they are bursting out of their square footage. The store floor is filled with equipment to make the different confectionary treats, tables, counters, and staging areas as well as an ice cream counter, card racks, and shelves filled with incidental products. While many of these items are purchased in addition to candy when customers enter the store, it is difficult to measure their impact on overall store sales in relation to the amount of space used. The store is only 1200 square feet, but this includes the candy storage room as well as the inventory storage area in the back. Space is at a premium in this store and is one of the more limited resources. While certain incidentals provided, like the ice cream counter, are capable of drawing customers in, others may be taking up space that could be better used elsewhere. For example, some shelf space is used for packaged chocolate that is made by another company. Also, there are mugs, baskets, and stuffed animals. While these items may be good additions to a "chocolate basket" or another product like that, they seem to take up more space than they deserve.

From limited observations, while areas like the ice cream counter and card rack received a lot of customer attention, the packaged chocolate, stuffed animals and mugs (just to name a few) seemed seldom visited or purchased. These areas may not be adding enough value to store operations to justify their use of space. Additionally, there are tables located in the front of the store that seem to be underutilized, yet take up a big chunk of floor space. Because the main store area is so small, all these items tend to give

the front area a cluttered appearance and compact the space used for the actual candy making process. One customer claimed that having more than two people in the store was problem; she felt cramped and hemmed in. The front customer area, coupled with the different machinery used in making candy, is a weakness, especially if customers are affected by this lack of space. While each machine has a specific purpose in helping to create candy, whether that is through dipping or pumping chocolate, there is not enough space to hold all of them. Of the machines themselves, it does no good to evaluate them one-by-one. The same is true for the different products and displays at the front of the store. They need to be looked at in the overall scheme of the store once the owners decide what direction of future they wish to pursue.

4. Structure

While much of the store can be categorized under a centralized structure, it is important to remember that because it is a small business the owners can be flexible in their overall structure and adapt it to fit the needs of the moment. This comes into play when employees are given the authority and responsibility to run the store in the owners' absence. This flexibility can be a key to survival in a changing environment provided there are some underlying structural foundations. In this case, the owners and their knowledge are the foundations that on which the rest of the store's structure and integration are based.

The employees themselves feel that they are given a great deal of responsibility and authority in the owners' absence and feel as if they are "running" the store at those times. This can be a weakness or strength depending on the circumstances. Provided that the employee left in charge is knowledgeable and capable of running the responsibilities of the store, such as making candy and handling contingencies, this flexibility allows the owners to leave the store for longer periods of time. However, if an inexperienced employee is left in charge, there may be some problems depending on the amount of time the owners are away. If a certain type of candy runs out and the owners are not returning for a few days, it would be difficult to replace that candy if the employee is only minimally trained in the process. If they attempt to make and run into trouble, it could lead to more problems in the long run. For example, one employee

was left in charge of the store in the owners' absence. While they were gone, she attempted to make a batch of candy with which she was not completely familiar. Unfortunately, she ran into trouble making it, made a big mess, and quit after being unable to fix it. This left the store short a person while the owners were on vacation. Delegation of authority is very important in a centralized hierarchy when the main decision makers cannot be present at all times. However, it only works when people have the capacity and knowledge to handle decisions that need to be made when the centralized authority figures are not present. Leaving too much responsibility in the hands of an inexperienced employee can lead to extremely stressful situations for them; situations they are not yet capable of handling.

5. Subsystems

a. Financial Management, Measurement, and Inventory Controls

A small business requires less subsystem and controls than a larger one would, though they still need basic measuring and monitoring activities. Inventory is a critical area of subsystems that is needed in a product-based service such as a candy store. Inventory management at the store appears to be nonexistent. As mentioned earlier in this report, many of the non-perishable items used in packaging and creating the chocolates are stacked behind the main area of operations in a small storage room. When an employee or an owner needs to find something, they go back and search through the different items to locate it. Some items used, such as the boxes to package chocolate, can be located quickly due to the frequency of need. Others that are used less often, such as specialty molds, take longer to search for. Within the storeroom, there is no rhyme or reason to the location of the items. As items are ordered and as they arrive, they are placed with similar items only if there is space in that area. Otherwise, they are placed in the first empty or clear spot that is found.

Inventory control is virtually non-existent since the items are accounted for as they arrive or depart the storage area and can be considered a big weakness in the organization. The lack of system sometimes frustrates employees who are looking for a certain wrapping or candy box within the storeroom. In addition to the lack of inventory control at the store, many items are stored at the owners' house, which is a half-day drive

in one direction. There is no way of knowing what is stored at their house compared to what is in the storage room at the store except through memory. While the owners may be able to remember the general location of most items and whether they are at the store or in their garage, it is hard for employees to know exactly where different items are located. Additionally, despite their ability to remember the general location of most items, it would be impossible to know exactly where everything is located unless they had a photographic memory. This can lead to either the employees or owners reordering items they may still already have, a waste of time and resources.

While the non-perishable items have no method of control or monitoring, which can lead to wasted resources if more are ordered by accident when they are not needed, the same system works well for perishable items. Since demand fluctuates on a daily basis, it is easier and more cost effective for them to replace ingredients needed in creating candy as they run out. Since many of these items have a limited shelf-life, purchasing the items as-needed cuts down on waste. Also, since the majority of the items are used very frequently, it is easy to keep an eye on amount left and re-order or run to the store in time to refill a particular ingredient.

Unfortunately, the financial management of the store can be considered another weakness. This area in particular was difficult to analyze, mainly because of the lack of information available. The store owners were only able to provide two years of income statements to review and located total revenues generated for only four of the last five years. This seems to signal either an accounting problem or lack of awareness on the long-term financial health of the store. It is difficult to measure the store's long-term growth when data cannot be located for the life, or even the past five years, of the store.

b. Human Resource Management and Rewards

Managing a company's human resources is critical in avoiding excessive time and effort in recruiting, training, retaining, or replacing personnel. Luckily, this business has had success in tapping into the informal military spouse networks at the Naval Postgraduate School and the Defense Language Institute. Word of mouth has worked very well in attracting new employees when it is time for other employees to leave. While the owners have professed their satisfaction with employing the spouses of

military members, it does lead to successive rounds of turnover after a year or so. Except for the one local resident working there, the entire recruiting and training process starts over again with a new employee. Continually having to retrain new employees can be considered a weakness. If the majority of their staff is replaced every two years, the owners are essentially starting from scratch in employee training every two years. Also, having to constantly replenish their workforce may mean that the owners have to hire whoever is available and is willing to work there, despite their scheduling preferences. Later workers may prefer to have a set time to come in to work and not have to worry about filling shortages if something comes up with other employees that leaves the store unmanned, especially if it is a time period they would not want to work during, like closing or weekends.

Another weakness dealing with employees is training. Once the personnel are hired at the store, the owners are the main source of training for each worker. The employees are given a tour of the store, then are taught how to accomplish the store's general duties such as cleaning, serving customers, and payment procedures. Some time later, depending on the production schedule, the employees are taught how to make different varieties of candy. The problem with the store's training philosophy is that it is neither completely front loaded nor consistent. For instance, if the employee is not scheduled on the same days the owners make certain varieties of candy, then it may be months before they are taught those skills.

This leads to inefficiencies and ineffectiveness for a couple of reasons. First, the owners wish to minimize their time spent at the store and maximize self sufficiency of each employee, enabling the employees to better run the stores by themselves. But if the owners are not comfortable with the chocolate production skills of the employees, those employees are not allowed to make certain things. Consequently, the owners have to make time to come into the store more often and produce enough products to cover certain periods of time. Additionally, if the employees are in the store and run out of something or into occasional jams with areas they are not yet familiar with, for example dealing with the credit card machine, that can lead to anxiety,

ambiguity and subsequent unproductive time that could possibly have been avoided with more upfront training.

Finally, the last employee weakness occurs when employees leave the store, either voluntary or involuntary. When employees separate from the company, it is typically because they do not fit into the company's structure, they have to attend to other family priorities, or in the case of the military wives, it is just time for them to geographically relocate. The owners do not conduct exit interviews with departing employees. Since the employees become so intimately involved in the store's operations, this is an excellent window of opportunity for the owners to learn something that might not have been shared during their employment period. Conducting exit interviews gives the employees a chance to be candid on some of the processes they did or did not like at the store. Even though there is an open communication policy between the workers and the owners, there still may be some things left unsaid that employees see as problems. Trying to draw these issues out would be much easier during an exit interview.

c. Planning and Decision Making

Being able to adequately plan for future operations and contingencies can help a business adapt and change with their environment. Planning allows a company to chart their path to the future, both for the short and long term. For this business, when a particular candy type gets low or runs out, more is made at that time; there is no system to anticipate demand. This is understandable, but only to a certain extent; the owners do not want to make more than they need of a particular candy because of the candy's shelf-life. If the candy does not sell as well as expected, then it can easily go to waste. Also, if there is an unexpectedly high demand for another type of candy, there would have been little way to predict that fluctuation in sales. Still, having no monitoring method over the sale of candy is a weakness in the operation. The owners have no ability, aside from the intuition that comes with running a business for 15 years, to predict sales based on a previous year's sales.

In an environment where forecasting is extremely tough, such as working at a small candy store, current activities need to be correlated to other similar periods. How does the company know how many resources are being used for their final

products? How much of the yield is created from these resources? How long do the resources last? All of these questions are linked to activity tracking. Discussions with the owners revealed that they were primarily responsible for buying all of the inputs. Further, because of their intimate knowledge and self tasking in their operations, they were the only ones who had a vague idea about how the inputs were used and how long they lasted. It also was clear that even though they knew how much they would purchase with a general idea of how long the materials lasted and yielded, they did not have it posted or documented anywhere. In other words, they did not have a tracking mechanism that could give them a real-time idea of how well their resources did or a general accounting of the activities from week to week, month to month, etc. For instance, the owners knew that each batch yielded approximately 25 pounds of candy. But they never tracked the actual yield per batch or exactly how long that batch lasted. Once they ran out of products to sell, they produced more. This is a problem if they wish to hand more of the day to day operations over to someone else. Though they may have gained the knowledge needed to generally predict sales and candy usage, it would take someone else just coming in a long time to get that same level.

C. ORGANIZATIONAL CULTURE

A major strength of the organization is its culture and interaction among the employees and owners, as well as employee to employee. Over time the owners have gradually learned to adapt the culture of their organization to the changing times and different personnel and have found themselves as the only continuity over the life span of the organization. For good or bad, they learned how to deal with it and only made minor changes whenever warranted. Their strengths lie in adapting to the situation and bringing their knowledge to help guide and lead new employees. They have found a good group of employees to work with who share their ideals of teamwork and customer satisfaction. Besides all of the benefits and perks of working for this store, the employees all gave individual testimonies of how well the owners treated them. A couple of them were skeptical at first when recruited to work for this company because they did not know how true the anecdotes about the owners and the culture were. They quickly changed their minds after working at the store. One of the key themes amongst the employees seems to

be teamwork and this idea was conveyed during the interviews. While at the store, they take personal pride in dedicating themselves to the tasks at hand. The current employees realized that this job is a rare opportunity for this area. They work with each other and have devised work schedules at least a month in advance. This communication among employees seems to be one of the critical strengths and benefits of working for this small, horizontally structured organization.

The owners have found success in treating employees as responsible adults capable of running their store unsupervised. They understand that finding employees to work for their small business in the local area is extremely tough and early on aimed to treat their employees with consistency. A weakness of this process though is if the wrong employees are empowered to run the store. This was evident in the problems they had with teenagers managing the cash register. Apparently, the teenaged employees were not ready for that level of responsibility. Overall the owners have treated the employees well, not only because it is the right thing to do, but also because they know that treating the right type of employees properly would have a direct, positive impact on recruiting and retention.

The owners' strengths also lie in the open communication channel they have formed between themselves and the employees. They have found this crucial, not only in the daily operations towards the employees, but also when the employees find it necessary to tactfully challenge some of the owner's established practices. The open communication channel has led to value-added changes and improved some of the minor ineffective practices that the owners had in place for years and brought more flexibility to the process.

Employees are given plenty of flexibility in scheduling when to come in and work for the store, so long as someone is in the store at all times. The current employees are extremely happy with this method of scheduling and are willing to pull together to ensure someone is always present. They work when they want to, but are also willing to compromise if someone cannot come in at an otherwise less than favorable time. While this flexibility in scheduling works well with the present group of employees, this may not always be the case with later groups of workers and could possibly grow to be a

weakness. While some people thrive on change and increased amounts of responsibility, others prefer stability and consistency. Currently however, the combinations of people, tasks, flow of work, and culture mesh well in this organization. Each one links to other aspects to make the whole greater than the sum of its parts.

D. INPUTS, OUTPUTS, AND OUTCOMES

Since the nature of this business makes it hard to forecast the demand for goods, it is hard to solidify a set schedule to purchase all of the raw materials. Therefore, as mentioned before, the perishable ingredients are purchased on an as-need-basis. This works well for the store. The owners also attend multiple trade shows to keep up with current candy and chocolate trends. These different professional venues prove to be extremely important resources for them because of the many ideas that come out of these conferences and the networks that are established and reinforced over time. These two inputs, raw materials and professional knowledge appear to be working well for the company.

It is important to measure the outputs by using established goals and indicators that can be tracked on a monthly, quarterly or annual basis. One measure in particular is the return on assets. The return on assets gives the owners a useful indicator of how effectively the assets of a business are working to generate profit. Unfortunately, the two years of financial data provided by the owners cannot reasonable be used to predict a trend. This information cannot be used to determine the financial wellness of the company or see if they are producing favorable outputs, such as expanding their customer base or sales. From the data that was provided, it appears that though sales went down in the last year, net income increased. This could signal an increased efficiency in either the production process or a decrease in costs to produce certain candy types. Again though, there is too little information to make a qualified assessment of the financial performance.

One outcome of the store is employee satisfaction. Though this outcome cannot be quantitatively measured, this satisfaction is a critical aspect of successful store performance. Satisfied employees are more productive overall and willing to contribute to the wellbeing of an organization. At this particular business, employee satisfaction has the potential to directly affect customer service, a critical portion of the overall product

generated at the store, especially since the owners count on outstanding service to bring customers back. From the different interviews conducted, it is apparent that the employees are happy and motivated to work at the store. This appears to be directly related to the culture of the store. Linked to employee satisfaction, customer satisfaction is another outcome of the store. Because of the high level of customer service, customers return back to the store to chat and get to know the owners and employees. The owners are also re-invited to different local events and are used to represent different organizations via their chocolate creations. It looks as if customers are well satisfied with the level of service and high quality chocolate they receive. However, the owners were not able to measure these outcomes financially and must instead rely more on customer comments and qualitative assessments to come to this conclusion.

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IV. RECOMMENDATIONS

A. ORGANIZATIONAL DIRECTION

Based on discussions with the owners, we have extrapolated three possible strategic options that are viable for their situation: 1) remain status quo with continued focus on systematic efficiency improvements, 2) expand by either purchasing a new store in another area or purchasing a larger facility in the same operating area, or 3) choose an individual to run the store full-time with very little interaction by the owners.

The first option assumes the owners will operate much the way they are now but with minor changes. A significant assumption of this option is that the owners will adopt the recommendations stated within this report. In so doing, the owners will be able to manage activities with a focus on increasing the efficiency, effectiveness and value in their current operations. The second strategic option assumes that the owners will invest the time and money necessary to expand their current store. Any added capacity, features, facilities and/or processes will be a significant undertaking and should be meticulously planned well in advance prior to execution. The last option will place the owners in semi-retirement status. In order for the owners to successfully facilitate this option, they must hire an individual who will--through position, authority and responsibilities-- be granted permission to have complete control of the store. Essentially that individual will become the chief executive officer or chief operating officer and the owners will interact very little with the store; only as minimally necessary.

The future of the store may hinge on these decisions. Most of our recommendations are based on the assumption that the owners will choose the first strategic option. We understand that we have not fully explored the second and third options. Instead, we strongly recommend that the owners get professional assistance to help them with the strategic thinking and financial analysis necessary to get a thorough assessment of the benefits and costs associated with the latter two strategic options should they choose to go that direction.

The owners of this store must close the gap between the company's current status and their vision for the future. The direction they choose will vector this business and provide them with a core set of goals, objectives and baseline assumptions that will help them proactively respond to their environment. It will also provide commonality of purpose for all the stakeholders. As stated above, the owners recognize their three alternatives. Each of these alternatives has a number of pros and cons that must be adequately assessed. The overall intent of this recommendation regarding the organizational direction does not necessarily choose the best alternative amongst these choices for the owners. That decision must eventually be made by them. This recommendation is focused more on the fact that whether the owners decide to remain the same or grow their business, for example, they must first decide on and maintain a more identifiable purpose that drives their business in the direction that they intend. Then they must address their various business practices, as stated throughout this report, to ensure that the path that they choose for the future adds the most value to this business and its customers.

First and foremost, the owners of this store continue to operate because they love creating fine chocolates. They both are very artistic individuals and enjoy the creative nature of their business. They also aim to meet the customers' wants and demands, exceed their needs and desires, and sustain their lifestyle through the profit that is made. They make valiant attempts to do all these tasks all while keeping the cost structure of their business as low as possible. Therefore, based on all of the information documented throughout this report and other information provided through the various discussions with the owners, a recommended mission for this organization can be defined as follows: ***"Our mission is to satisfy our customers with first-class quality chocolate products, excellent service at best value pricing... one bite at a time."***

After the adoption of a mission, the owners need to develop a strategy. As stated earlier, the owners have three strategic alternatives. The alternative that they select must fit into their overall long-term strategy for their business. Only then will they be able to guide the organization with the purpose and fervor needed for long-term sustainable growth. Inherent in the suggested mission statement is the assumption that the owners

will do their best to maximize the efficiency and effectiveness of their business. That is the only way they will be able to sustain quality, cost effectiveness, and customer satisfaction over a longer period of time.

B. DESIGN FACTORS

Despite the alternative that they choose, the owners also will need to have continuous assessment and systematic improvement efforts implemented in order to balance and achieve their future goals of efficiency and effectiveness. There are pockets of opportunity in the current operations that are waiting to be uncovered, modified or divested. For example, if the owners decide to remain status quo with the current business without any future expansion, they will have to modify current business practices to take advantage of areas which may take away from their efficiency, effectiveness and overall profitability, i.e. ad hoc specialty projects, store customer area floor plan, or inventory management.

1. People

The people working at the store seem to be one of the biggest strengths of the organization. The employees are hardworking and motivated to ensure the store is always manned when it is open. They thrive under the responsibility given to them by the owners and truly enjoying producing and selling candy. Similarly, the owners are enthusiastic about their work and desire to produce high quality candy. They are motivated by pride in their creations and work hard to ensure the candy is always top notch. There are no apparent recommendations for this aspect of the organization, just a caution: It may be hard to continually find such dedicated employees when the current group moves away due to military relocations. Care should be taken when replacing employees. A new employee's commitment level should be evaluated as much as possible to determine if they will work as well under the same procedures and responsibilities. If not, the owners may have to change tactics to motivate a new employee to work hard within their organization if an intrinsic motivation does not exist as strongly. Additionally, if they need to hire part-time teenage workers again, it would be prudent to ensure there is always a more mature worker in the store with them to mitigate the risk of employee stealing.

Finally, a greater effort should be made in finding a local area employee to take over much of the daily operations of the store. This particular suggestion could be applied to either the status quo option or the semi-retirement option. It would be prudent to start advertising in the local papers and through their networks for a full-time worker. Much of this may have already been done; if so, then it should be continued. Another venue of searching may be through other local shop owners. They may have family or close friends that are interested in taking over the running of a store. Additionally, some of the local job website may prove to be a good resource in this search. If the owners are truly serious about turning over daily operations, continual and concentrated effort should be placed towards this goal. A full time worker would allow the owners to start detaching themselves from some of the everyday tasks of operating the business.

2. Tasks

Due to the size of the organization, the nature of the different tasks works out well. Employees are able to run the gauntlet of tasks, from simple to complex, depending on their level of training. New employees are expected to do many of the simpler tasks that involve stocking shelves and cleaning up right away. However, this can get tedious. New employees should be given the opportunity to learn one of the easier candy making tasks, such as cutting up a variety of nut turtles or dipping clusters, soon after they are hired. That will give them a variety of different tasks they can accomplish from the spectrum of possible jobs and make the work more interesting. Other than that, it is apparent the current nature of the tasks works well in this organization.

3. Technology of Work

The flexibility of the process works out very well for this company; it allows them shift their limited resources to an important or time critical task easily and quickly. However, there can be some ambiguity in this process for newer employees who are not comfortable with this process and do not yet understand their place in the ebb and flow of work. This could create tension within the work place. New employees should be given a specific set of tasks that they are expected to accomplish and then trained on those specific tasks (training shall be discussed later). This happens for the most part already, but the tasks for new employees should be more formalized. As they grow in experience

and gain more knowledge of the organization's processes, they can then move away from a formalized list of tasks. The employee should be closely monitored to ensure they are equipped to handle the flow of work and also to make sure the process is running smoothly.

The capacity of the store is a tricky area to manage. Items placed on the store floor need to be objectively evaluated to see if they add any value to the store operations and if it is enough value to justify the amount of space taken up. Some objects can be stored in the back while a sample is available for viewing. For example, stuffed animals can be placed in the back if they are mainly designed to go into candy goodie baskets. Then one or two can be placed out on a shelf with a sign: "Ask us about our different stuffed animals" or "Add a stuffed animal to your present for that special touch." This would help to signal that there are more stuffed animals to choose from yet limit the amount of floor space they take up.

Some items may need to be removed all together or incorporated into specials in a different way. For example, instead of offering mugs by themselves, they can be filled with different packaged candies or treats and sold in that manner, much the way flower shops do. Or, if mugs are not doing well all together, perhaps they need to be discontinued completely and sold off as a clearance special while the shelf space is used for some other function. The same can be said of the pre-packaged chocolates and candies that are made by other companies, yet displayed in the store.

Another area that needs to be evaluated is the amount of floor space given to tables and chairs as well as the location. The tables and chairs are located in front of a big store window. If this area is often used by customers, it might be well suited to attract additional customers. If not, reducing the number of tables and converting this space into an automated chocolate process may help to catch passersby and draw them into the store more readily. Either way, the frequency of use as well as feasibility of converting it into something else should be evaluated before a change is made. Overall, choosing what to keep and what to discontinue in the different store displays can be a subjective process unless an effort is made to record the frequency of use as well as value-added to the store. This can be in terms of actual money spent on those items or

number of times they lead to other purchases. Either way, these areas do need to be reviewed and possibly reapportioned.

4. Structure

As discussed before, the structure of the store is adaptable to the moment. The decisions are centralized with the owners but they are often delegated to employees. While some of the employees profess to enjoy having this level of responsibility, it can be stressful on someone not ready to take over. Leaving so much responsibility in the hands of an inexperienced employee can lead to extremely stressful situations for them; situations they are not yet capable of handling. Ensuring there is adequate, trained supervision is important. Another recommendation would be to openly discuss with the current employees what their comfortable level of responsibility is and give them time to grow. If an employee does not feel comfortable running the store by themselves, they should not be forced into that situation. However, they can be trained to this level by giving spot responsibility for decisions with a backup, either an experienced employee or owner, ready to help them out if the situation becomes unmanageable. One way to slowly work on this would be through supervised, but non-interaction candy making. An employee can be given the chance to make a batch of candy on their own while someone supervises, but does not make any suggestions unless they become hopelessly lost. This gives the employee a chance to make and discover mistakes by themselves, yet provides backup before the situation becomes out of hand. This process also allows the owners to see how their employees will react when given command of situation. A similar effort to this would be allow a less experienced employee to run the store for a week, even if the owners are still there. The employee can be given responsibility for making perishable items lists for purchase, determining what candy batches need to be made, and essentially handling the nuances of the store's operations. This would help to better equip them for later, when they may need to run the store unsupervised.

5. Subsystems

a. Financial Management, Measurement, and Controls

The first suggestion to assist the owners in dealing with their inventory more effectively is to consolidate all their inventory items. Locating all inventory items

at the store is problematic because of the space issue. However, they all need to be in the local area at the very least, rather than split between the store and the owners' garage. One way to do this might be to rent a storage unit in Monterey to place many of the heavier bulk items or less frequently used specialty molds. For example, packaging materials take up a lot of space in the store storage area. Perhaps only a limited amount, to conduct operations for a certain amount of time, should be at the actual store. The rest of the packaging materials could be placed in another storage location. Items at the store can be replenished when they fall below a certain set amount. Additionally, seasonal packaging materials and items could be placed in the same off-site storage area and brought to the store in time for the holidays or when candy production needs to be started on those items. Within the off-site storage space, items can be placed in labeled Tupperware containers that are separated either by function or season, just to name a few categories. For example, all the molds can be in similar containers and separated by time of year or product number.

Storing additional inventory materials elsewhere, such as packaging and other incidentals is a must because of the limited store space. However, storing them far away from the store becomes problematic if employees need to replenish materials. The owners have stated that they would like to find someone who can take over running more of the day-to-day operations so they can enjoy a bit of "retirement" and relax. By finding another location in the local area to place extra items, the owners can give their employees more autonomy in running store operations. Instead of relying on the owners to bring items from their home that are needed, or ordering more by accident, locating them nearby allows employees to get the items themselves when supplies run low.

Another way to increase the efficiency of inventory management is to start recording purchases and orders of different supplies. Since the problem does not seem to lie in the perishable inventory area, this tracking system can be solely for the packing materials, specialty molds, and other incidental items. Bringing a laptop into the store and placing it either on a shelf in the back area or some where on the store floor would limit the amount of space that is used in this process. The storage area in the back would

probably be a better area to locate the laptop. This way, it is visible whenever personnel go back to either remove or add items.

One of the ways to track items can be through the use of a spreadsheet. Items can be placed in an excel document by either product number or description. After some kind of designator, a fuller description of the items could be in another column (if needed) along with the quantity left and where the item is located. Also, spreadsheets could be divided up by overall location, such as whether it is at the store or in an off-site storage area. When an employee needs more candy boxes at the front of the store to fill orders, they can take some from inventory and record the amount taken in the spreadsheet. Taking them in different batch sizes of 20 or 40 at a time (or whatever is most practical), rather than one-by-one, saves time in the recording process. Then, when an inventory level of a particular item or set of particular items gets below a certain amount, an order can be placed with the appropriate supplier. Once those items are received by the store, it is just a matter of recording the new quantity into the spreadsheet.

Another recommendation deals with the current financial management system. Since there does not seem to be a very comprehensive financial system in place, some method of recording and storing income statements needs to be implemented. This can be as simple as printing each year's statement and storing it in a strongbox or filing drawer. Either way, it would be smart for the store owners to record and track their yearly changes in sales, revenues, net incomes, and other basic measures. This would allow them to take in the bigger picture of the health of their store and answer such questions as: Are sales revenues increasing? Are costs increasing relative to sales, more, or less? Are we generating more revenue each year or less for the amount of sales? These types of questions can allow the company to objectively review their business and make a better assessment of the store's health. Knowing objectively whether a store is getting better or worse in the long run, rather than trying to subjectively make the determination, will allow them to make qualified decisions on where to go in the future.

b. Human Resource Management and Rewards

Regarding the humans resources of the store, a more formalized employee work plan of times should be devised. While the flexible scheduling works well now, it would be prudent to have something ready when the current batch of military spouses rotates out due to geographical relocations. That way, when new employees come to work at the store, they can have a more formalized work schedule until they become comfortable with the different store operations. This ensures that no new employee finds themselves in suddenly working at the store alone. Then once they are trained properly, they can be given more flexibility in scheduling their hours. Additionally, some employees might prefer to have a more structured schedule. If the owners are in a “bind” to find someone to replace an employee who has left, the option of having a structured schedule could help attract more employees. This would allow them to match new employee’s needs with the store needs until more help can be found.

Also, proper and timely training is absolutely paramount to running an efficient and effective business. An augmentation of the current training plan needs to be formally implemented. If the employees are expected to get up to speed as fast as possible in order to run store operations on their own, then the proper investment in training needs to take place as early as possible. The owners should devise a plan for each employee that incorporates certain skills that will be needed by a particular date. Then they can let the employees run the store with less calls to the owners for trivial issues that could have been resolved with more training.

The owners also have started using one of the more experienced employees to teach the newer employees. This process should be incorporated more formally into the overall training plan from the beginning. If the owners are not scheduled to be at the store on particular dates, the more experienced employees should be scheduled to be at the store at the same time as the new employees. Further, there should be training objectives established so that they can accomplish these goals early on in the new employee’s tenure. The better prepared the employees are, the better off the store will be.

With the relatively high turnover of employees, even though the owners briefly talk to the employees prior to their departure, it would be good idea to have a short, more formalized exit interview. This interview can be a 5-10 minute meeting discussing some of the reasons for their departure. This time can also be taken to converse about some of the points they saw as strengths and areas of improvement of the store. In a lot of cases, businesses find that some employees will not speak up during employment for fear of retribution. This may or may not be the case in this candy store. But the owners may find some valuable nuggets of information if employees are given the chance to discuss aspects of the store before they leave.

c. Planning and Decision Making

The planning and decision making aspect of the store lies mainly in the owners' hands. Though they base many of their decisions on 15 years of experience and intuition, some monitoring method over the sale of candy and a way to predict sales based off of a previous year's sales is important. Activity and resource allocation tracking are good ways of measuring expected outcomes in this company. It gives the owners a venue to predetermine how well the assets are being used while tracking the overall schedule of activities per time period. There should be a more formalized way of tracking when and what they are producing. A simple automated excel spreadsheet can be developed to track these items. A boon of this spreadsheet can be evidenced as follows. If the owners buy a particular amount of material that usually lasts for a month, but upon evaluation determined that it only lasted two and a half weeks, they could use that information to figure out the reason for the difference. This tool may not be an accurate forecast of future operations, but it can still give the owners documented insight into their most recent operations. They can then use the information to analyze whether or not there are times they waste assets more than other times. This reflection analysis can be an effective tool to illustrate the changes in productivity and overall efficiency.

C. ORGANIZATIONAL CULTURE

The organizational culture of this company is clearly a strength and the fabric that has kept this company in business successfully for the last 15 years. Based on the employees' reactions to the current culture, the owners have done a great job of adapting

the business to changing employee demands and fluctuations through the years. Therefore if changes are made to the culture, the owners may find it appropriate to only make changes minor in nature and very similar to the way that it has been done over the last 15 years. At this juncture, the owners have a better feel of the people that they hire along with any limitations they may possess. The culture has been solid enough to absorb impacts through time and so this suggestion serves as more of a precautionary measure.

The current employees work well with the challenge of autonomy which satisfies a huge part of the owners' vision for the company. Could it be that the culture will remain exactly the way it is today? Only the future will tell. Therefore, the owners should stay proactive with the ever-changing demands of their employees, especially since the employees revolve at least once every year. As stated in the previous chapter, the employees work well amongst themselves to figure out a schedule that fits everyone's needs. Further, they are very flexible to the needs of other employees and the owners and are willing to accommodate any last minute deviations within reason. That may not always be the case. The owners will need to continue to monitor the pulse of the employees' needs and/or concerns as they rotate in and out each year. There may be some employees next year who will be resistant to having another employee plan their schedule or they may be less adaptive to large degrees of flexible scheduling changes. Vigilance is paramount. The owners should stay abreast of those situations and work with the employees in order to maintain good order. Furthermore, the owners should stay alert to ensure that this company's culture remains a positive force that synergistically complements the direction, strategy, inputs and results of the organization.

D. INPUTS, OUTPUTS, AND OUTCOMES

Comprehensive management planning is a good way to get a grasp on the company's outcomes. First there needs to be pre-determined consequences defined in which the owners puts emphasis on what matters to them as stakeholders. These areas can range anywhere from how well a certain amount of assets generate profit to how well they meet customer satisfaction. The key component to analyzing the outcomes is the establishment of a measurement process.

As mentioned in the previous chapter, one of the simpler measures that can be used to gauge their productivity is the return on assets. The way to measure the return on assets is simply dividing the net income (before taxes and interest are deducted) by the total sales revenue of a particular period. This measure should be taken in intervals that make sense to the owners and can be compared to other periods. For instance, it may be useful to compare the results by season, quarterly or annual basis. Regardless of the intervals or period chosen, the measurements need to be analyzed over time. In other words, there needs to be some sort of simple trend analysis accomplished. The trend analysis should reveal which periods are stronger and weaker than others. Then the owners can delve into a more in-depth analysis to determine if anything was done differently during those periods and if there will be a need for change.

Another simple outcome measurement is customer satisfaction. As of right now, this is done informally through face to face conversation. But there may be times when the store is crowded and people have to walk away or some people may want to say something- good, bad or indifferent- but they do not. Therefore, it may be a boon to have a small suggestion box located at the front inside of the store so people can buy their products and fill out a feedback form on their way out or while they wait. Either way, customer feedback is the key to improving customer satisfaction because it will allow the owners to get a documented gauge of how well they are meeting their customer's needs. Understanding the link between the outputs and the outcomes is extremely important for this company. Only until after they gain a more firm understanding of the importance of performance measurement mechanisms will they have the proof needed to determine if they are improving in their day to day operations and if they are doing everything possible to maximize the value of their business.

V. CONCLUSION

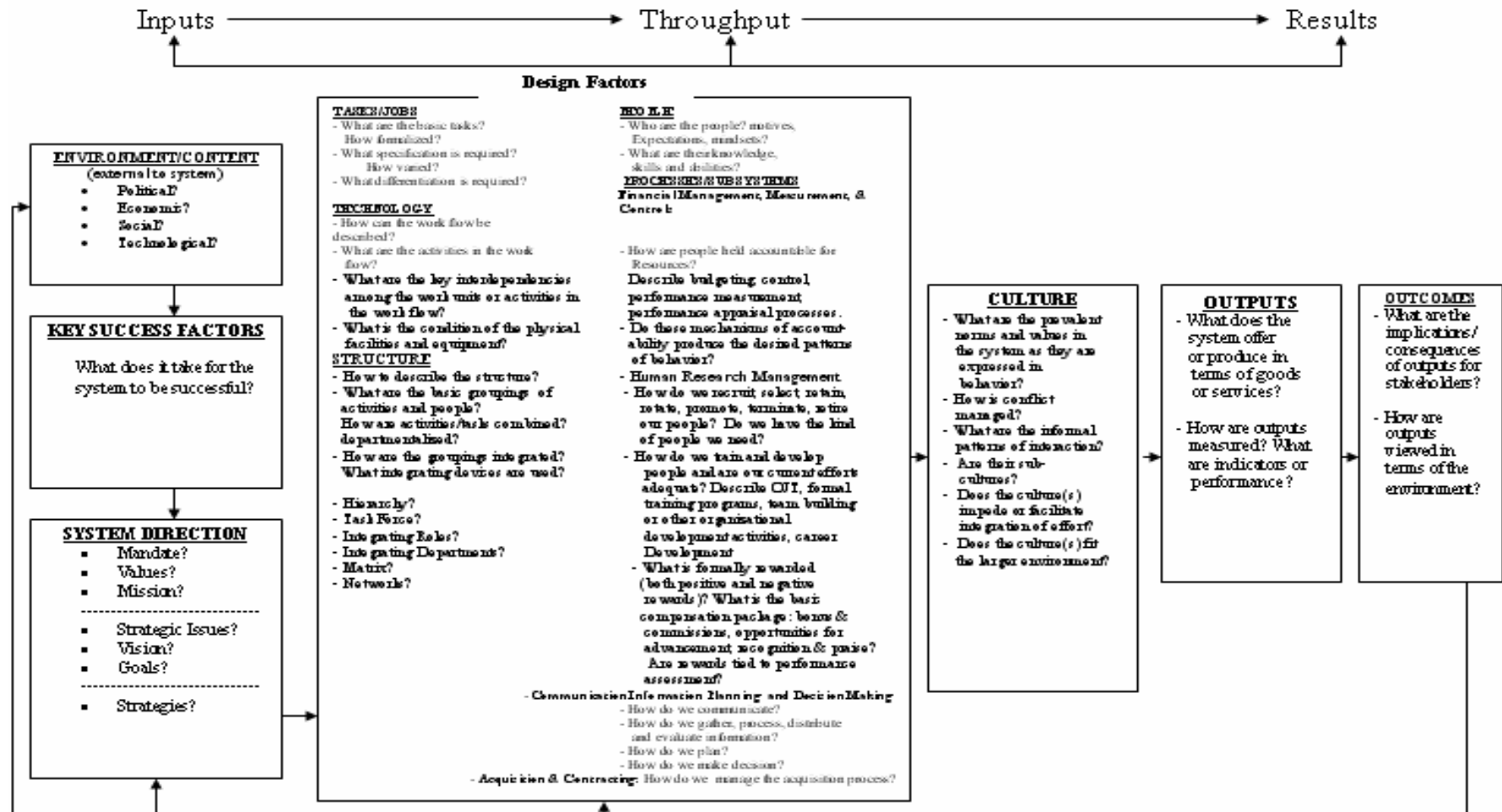
In the wake of reorganization, realignment, and streamlining, the Department of Defense (DoD) is faced with the daunting task of making sure its organizations are set up to properly respond to growing demands. The size and complexity of organizations within DoD vary greatly, but the underlying challenge remains the same: maximize the value of the organization and increase its worth using objective, outcome-based criteria. Organizations are being called upon to justify their existence or face outsourcing of their responsibilities to contractors that can accomplish their jobs better and save the government money over the long-term.

In today's operating environment where resources are finite and every day business practices are scrutinized by the highest levels within the government, it is of the utmost importance that DoD organizations proactively adapt to the ebbs and flows of environmental demands. They must systematically learn to discern their strengths and weaknesses to be able to maximize their opportunities. They need to learn how to diagnose their current situation and capabilities to change their operations to be more effective and efficient.

Operational efficiency and effectiveness are the bottom line. They are absolutely paramount to maintaining healthy organizations that will meet today's and tomorrow's missions. The Organizational Framework Model used for this MBA project can serve as an excellent diagnostic tool to assess efficiency and effectiveness. It can help craft a comprehensive report on current activities and lead to recommendations for change in the future. Although DoD is not a profit generating entity like the organization analyzed in this report, the OSF strategic analysis tool used is a good starting point to help DoD organizations define/redefine their missions and align their organizational decisions. The OSF can be used as a tool to help an organization understand and more fully grasp the complexities of its operations. After learning to apply it effectively to one organization, we anticipate greater ease in applying it to DoD organizations. Our intent is to encourage the use of this model and other diagnostic tools as we return to our commands.

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APPENDIX A. ORGANIZATIONAL SYSTEMS FRAMEWORK



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APPENDIX B. COMPANY INTERVIEW

Owner Perspective

The following questions and answers are from one of our first in-depth interviews we conducted with the company. Our goal in this interview was to establish a direction for our future inquiries towards processes that might need improvement. This interview also helped us to understand the mind-set of the business owners and how they viewed their business and their possible problems. The answers given in this section are not exact quotes; instead they have been paraphrased from the notes taken during the interview.

1. Beginning Business Direction

a. What do you or your business value?

We value high quality in our products; high quality chocolate. We want to make the best product possible and produce something larger companies cannot. For example, our products have less shelf life but higher quality (when the larger companies make something, they usually concentrate on longer self life). If we need something more, we make it fresh.

b. What kind of business do you see yourself as?

A niche market (this goes with the response up above, providing higher quality to those that care and want that quality). *Interviewer's Insight:* I would say this is also a product oriented business, but with some service inherently wrapped up since the owners say they serve “loyal, regular” customers.

c. Why did you start the business?

We “fell” into it. We knew we wanted to start a business and the opportunity to run a candy shop franchise came available through friends. We took some time to do a bit of research into the candy business and talk with other friends in it. It appeared

profitable and fun so we did it. Having friends available who were already in and could impart experiences and advice swayed the decision positively.

d. What are your reasons for owning this particular business?

At location in Carmel: It seemed like a good location and we were already used to the area. Currently we are comfortable with our location and the customers and are not currently aware for we would want to go instead. The costs to operate in Cannery Row were more than they were in Carmel (the business owners we interviewed owned a franchise candy business in Cannery Row before the one on Carmel). The costs to operate in Cannery Row were more than they are in Carmel. Rent was about twice as high and the customers were more “intense.” *Interview’s Insight:* I took this to mean that their current customers are more laid back while the ones on Cannery Row were more demanding and impatient. This was later confirmed as they said their current customers seem to be more upbeat and “happy.”

At Cannery Row, we would have double our output from current sales here in Carmel and have about \$200,000 of sales to break-even. However, at Cannery Row, most of the customers were tourists and felt “freer to buy” chocolate. *Interviewer’s Insight:* This means they were on vacation and not concerned with their diets at the time, or felt free to enjoy themselves and indulge more through a snack of chocolate.

2. The Owners’ Thoughts on Candy Business in Particular

It has been interesting and fun, not as intense or hard as a restaurant (having to deal with spoilage, food handling regulations, etc). We do it well and are comfortable with it; we are knowledgeable about the industry now. The industry is a close knit group: you get to know other store owners, become close to suppliers, have fun...it’s rewarding. Most customers are easy to work with and are “happy” to buy chocolate.

a. What makes your business special or unique from others?

Again, we consider our chocolate quality to be higher than other commercially owned stores. Also, we fulfill special or custom orders that others can’t. For example, if someone wants a chocolate piece in the shape of a guitar or put company logos on

chocolate, we can do it. It makes us different from other stores. *Interviewer's Insight:* They stated they thought they were one of the few kinds of stores like this in the area (Carmel in particular and Monterey Bay in general). They believed most other stores were more commercial and less capable of these kinds of product.

c. Why did you not want to own a franchise? What exactly made you different and not “compatible” with franchise owners?

We believe that the Rocky Mountain Chocolate factory in general (the franchise they previously managed) may have had quality control issues. Though we kept our store as clean as possible, others seemed to be held to no such standard. Our store was often remarked upon by customers as the “cleanest Rocky Mountain Chocolate Factory store” they had been to. Though we kept our store clean, they saw no punishments or standards held to other stores to do the same. Additionally, we saw no standardization in the products produced by different stores (like the kinds of apples used for caramel apples). The franchise owners seemed more concerned with profit and making as much money as possible rather than quality or taking care of their different store managers.

One, example of this was that the franchise owners would make stores have 2 for 1 deals, but not give stores a break on supply prices (they had to order supplies from the franchise owners). So, the additional sales went into the franchise owner's pockets, but the individual stores had to take the brunt of the 2 for 1 deal. The franchise did not seem to take care of their stores in return (All of these comments are personal thoughts from the business owners we interviewed).

d. What is your goal or goals for the business? What do you hope to accomplish?

We want to provide a good quality product. We want to provide more products at a lower cost to ourselves and possibly expand. *Interviewer's Insight:* They tried expanding once before and opened another store in Carmel; it did not work out and they were hurt in the process. I imagine they meant financially though they did not specify.

We would like to secure a good standard of living for ourselves, though it would be less than when we owned a franchise. However, we would get more freedom. We

like working only 3-4 days a week. *Interviewer's Insight:* One of the store owners mentioned he would like to be able to hire someone to take over part of the business and to run it while he still owned it, but lived in a comfortable semi-retirement.

e. Does your business have an over-arching vision?

Interviewer's Insight: This question was never explicitly answered, but I think quality, quality, quality is what they appear to strive for.

3. Outputs

a. What is your final product or service? Do you just want to sell candy?

Not just candy, but we want meet people's specific needs (as mentioned above in the unique and differentiation question). We serve customers, even if the customer does not bring us additional profit. For example, we have one regular customer that only orders a cup of coffee each day. We are not really making any money off of that customer, but we treat her well regardless. We also try to sell extra items, such as ice cream, coffee, cards, a small supply of souvenirs...anything extra to catch the eye of the customer. There are not really any other ice cream stores nearby.

b. How do you measure your results to know whether you've attained your goals?

Measuring the quality of our candy is very subjective. We make their own truffles using only cream, butter, and chocolate and keep the ingredients pure. Then, we taste other chocolates from nearby stores (or tradeshow and conventions) to compare it to our own. If we like another chocolate better and cannot reproduce it at the store, we order it from the makers and stock it for our customers (like sugar-free candy). Basically, we make the chocolate to our specific tastes.

c. How do you know whether or not you are doing well?

We get compliments from former employees who send back for chocolate when they move away, claiming they can't find anything as good as us where they are. We get feedback from the customers in terms of comments that are usually subtle. *Interviewer's Insight:* I believe they said this takes the form of compliments, such as an "I love your

chocolate” or just from the fact that they have repeat customers and customers refer other customers to them.

For negative comments, we look at the validity of the comment and see if it is something that would make sense to change. We may give “special gifts” to displeased customers. Currently, it is hard making chocolate by hand and trying to please every single customer that walks in the door. We don’t often have enough people so that one person can concentrate solely on the customer or on just making chocolate (like some other stores do). For a small business, it is expensive to try and do something like this.

d. How do you determine your success? What do you look at?

For our success, we determine it by our personal satisfaction with the product. We are “proud of what we turn out” and use that as a personal measure. This can also be combined with customer compliments to see how well we are doing. Additionally, we measure the profit made on purchases or sales. We feel we are doing well (in quality of chocolate, etc) since we are very hard and critical on their personal performance for the store. If we like it, then it is more than likely good.

e. Do you have other long-term metrics? What’s the time frame?

As mentioned before, we are currently at a crossroads and are not sure what direction we want to take the business. To look at it long term, we would view overall sales growth to determine success. Have are sales risen year to year?

Right now, we are not sure what they want to do with the business (the owners talked about hiring someone to run it so they could retire or possibly sell the business completely and move into another line of work). Maybe we should expand. We really aren’t sure at the moment.

4. Outcomes

a. Who are your stakeholders (anyone who has a vested interest in the company, such as customers, owners, employees, suppliers etc)?

Just what was asked about, we have none to add. The only exception is on the customers, we also consider “regular” customers as stakeholders. As for others, the mall owner could be considered a stakeholder.

b. How do the different stakeholders view the organization?

The county government is difficult to deal with when they want to make any kind of changes (for example, the mall as whole wanted to cut down a tree, but we were denied permission). The mall owners want to make a profit and do well in collecting rent. For example, all the stores now have to transport their own trash to the dumpster. This isn't a hardship, but it is something we are unused to dealing with and is more physical work than some of our employees anticipated (spouses, pregnant employees).

For the employees' views, it depends on the attitude of the employee. Some are ready to work and work hard (such as the military spouses) while others view it as a drudgery (the teens working here). We try to be more flexible with our employees in terms of hours than most stores...we try to let the employees work when they want to.

When an employee leaves, we hold no exit interview. We usually know why an employees leaves before they do or are fired. It is usually because the employee's views on work or a particular issue differ from the ours. Or they go to other jobs or school.

For customers we get very regular, loyal customers. We try to develop strong, personal relationships to continue to receive business from these customers.

Earlier the mall was family owned; now a corporation owns it. We have a harder time getting to know the new owners. We rarely personally see the director in charge of the mall, we mainly see her through other correspondence it seems.

c. Do you give awards? How do you rate employee satisfaction?

Interviewer's Insight: This was not answered. I would say no particular method of rewarding employees exists from what I have seen except maybe a basket of chocolate or something from the store on a rare occasion. Also, I would imagine they hold employee satisfaction in the same light as employees leaving...they are small enough to know if someone is unhappy.

5. Environment

a. How does the environment affect your business? Is this a historically good or bad area for business in general? Candy shops in particular?

For the local area, Monterey is relatively hard on businesses; “lots” go out of business. We think one of the ways we can tell we are successful is by the fact that we are still in business. When there is rain though it sometimes equals poor business.

The mall area in particular, we get a medium level of tourism. We think that no more than 50% of our customers are tourists. We are not on the normal tourist path like some areas (i.e. Cannery Row) but we are a unique mall. However, we do get a little boost of business during the tourist season. For other shops in the mall, about half a dozen have gone out of business since we’ve been here (11 years). Usually it is due to family problems, rent problems, or not getting enough business.

For candy shops, August is usually the worst month for most while December is the best. However, in a tourist heavy area, August is the best month for customers while December is the worst. During the Christmas time, we cater to mostly local customers. In relation to rent, most candy shops are 500 to 1000 square feet. It’s larger if you manufacture all your own goods. Our shop is 800 square feet.

We aren’t using all their capacity to the fullest. As it is, we are only there a few days every week to make the candy. If someone made candy full-time, we could make much more. However, we wish had a machine to make some of the candy. It would save on some labor; but we do not have the space for such a machine. Our other wish is to have someone full time to produce candy by themselves.

b. What is the weather like? How does this affect your business?

The weather is good here for candy because it is cooler than other areas (chocolate sells well in a cooler climate, it does poorly in hot weather). August is the worst month for chocolate usually. When Highway One gets mud slides, that also poorly affects our tourist traffic since many are hit this mall before they drive along the coast.

Earthquakes also affect us. Seattle and San Francisco are better areas for selling chocolate.

e. What is the turnover rate of new stores in this area? If you don't know, can you tell us how might know?

The turnover rate is higher than normal for most areas. Specialty shops usually have a higher turnover rate than other shops. In this area, rents are higher and profit margins are smaller.

f. What is the annual customer inflow approximately to this area?

Interviewer's Insight: They failed to answer this question. However, the owners claim they do get a higher dollar per sale than other candy shops. It is higher than the national average for candy shops. Their current average is \$100 per week and holidays is \$700.

APPENDIX C EMPLOYEE INTERVIEW QUESTIONS

1. KNOWLEDGE, SKILLS AND ABILITIES

- a. Did you have any prior experience doing this type of work before working for this store?
- b. If so, did it help you in this organization?
- c. How long did it take you to get up to speed?
- d. Are their intangible or tangible benefits or rewards? What are they?
- e. What brought you to work here? What keeps you here?

2. TASKS DIFFERENTIATION

- f. What do you normally do?
- g. When other workers are in the store, are the tasks that you perform solely assigned to you? Or are the tasks shared by everyone?
- h. Are there other jobs that you would like to learn?

3. TECHNOLOGY OF WORK

- i. Is there a formal assembly line process? Or is it more informal? How so?
- j. Can people fill in if there is a hole? Are you trained to do other things?

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